



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, June 15, 2012  
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Vice-chair of the ASRS Board, called the meeting to order at 8:27 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Tom Manos, Vice-chair  
Mr. Tom Connelly  
Mr. Chris Harris (arrived at 8:28 A.M.)  
Professor Dennis Hoffman  
Mr. Kevin McCarthy  
Mr. Brian McNeil  
Mr. Mike Smarik  
Mr. Jeff Tyne

One vacant position.

A quorum was present for the purpose of conducting business.

### **2. Presentation Regarding PRIDE Award for Improvement**

Mr. Chris Harris arrived.

Mr. Paul Matson, Director, recognized the following nominees for the PRIDE Award for Improvement: the Training and Development Team (Donna McNally, Juanita Primero, Aaron Chandler, Jean Langston); Leah Nemecek; Alan Molyneaux; Rosalind Wilson; Sara Orozco; the Benefits Accounting Team (Tracy Rundle, Nicie Montanez, Phil Verver, Darren Taylor, Mary Lopez); the General Accounting Team (Rochelle Witharana, Julie Walker, Debbie Motta, John Maczko, Liz Rozzell, Lorin Rhue, Lana Menis, Kristin Berry, Lynne Latino, Tonia Nemecek, Lisa Daily, Nikki Green). They were nominated by staff who feel they exemplify the following PRIDE qualities of improvement:

- Promote new ideas
- Solve problems
- Enhance outcomes or performance
- Improve relationships
- Enhance morale
- Increase efficiency, effectiveness or reduce costs

Mr. Matson presented the PRIDE Award for Improvement to the award winner, Leah Nemecek.

### **3. Approval of the Minutes of the May 18, 2012 Public Meeting of the ASRS Board**

**Motion:** Professor Dennis Hoffman moved to approve the minutes of the May 18, 2012 Public Meeting of the ASRS Board. Mr. Brian McNeil seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

### **4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Christine Rowald's Appeal Regarding Her Retirement Benefit Calculation**

Ms. Jothi Beljan, Assistant Attorney General, presented the facts of ASRS member Christine Rowald's case to the Board:

- Ms. Rowald returned to ASRS-related employment in 2010 after working in California as a teacher from 1991 to 2010.
- During Ms. Rowald's employment in California, she received annual ASRS member statements stating she would receive \$643.80 ASRS monthly pension at normal retirement associated with her employment at Deer Valley Unified School District from 1980 to 1991.
- Ms. Rowald testified she called the ASRS call center in February 2010, and was told if she returned to work with an ASRS employer, her monthly retirement benefit would increase from \$643.80 to \$1,400.00.
- In Fall 2011, Ms. Rowald learned the ASRS retirement formula is Pension Benefit = Average Monthly Compensation x Years of Credited Service x Corresponding Multiplier. Typically, in order to double an estimated monthly benefit amount, the years of service must double.

Mr. Nick Ponder, Management Analyst, noted the ASRS only has one call on record and there is no evidence a monthly benefit amount of \$1400.00 had been provided to Ms. Rowald.

In her Recommended Decision dated April 25, 2012, the Administrative Law Judge upheld the ASRS Director's determination Ms. Rowald's retirement annuity will be calculated according to the A.R.S. § 38-757.

Ms. Rowald asserted she called the ASRS call center twice and was told both times if she returned to work with an ASRS employer, her monthly retirement benefit would increase from \$643.80 to \$1,400.00. She explained she sold her home in California at a considerable loss, returned to Arizona, got recertified to teach in Arizona, and then secured employment as a teacher, based on the information she stated the ASRS gave her over the phone. She said she should be able to rely on information provided by the ASRS.

Trustees questioned whether the benefit formula was complicated. Ms. Beljan said legally the formula is straightforward. Trustees asked if it were possible for a member's pension benefit to double with only one additional year of employment. Mr. Ponder said it was not possible. Trustees noted their decision must be legal and based on substantive evidence not on hearsay evidence. Ms. Rowald argued the evidence was her actions and not hearsay. Trustees noted they cannot overturn a judge's decision unless it is legally flawed or there is additional evidence.

**Motion:** Mr. Kevin McCarthy moved to accept the ruling of the Administrative Law Judge with the technical correction that the Recommended Decision, page 2, lines 5-7 should reflect that the multiplier increases by .10 from 25 to 30 years of service. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

## 5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Asset Allocation Study

Mr. Matson introduced the topic, noting a high-level overview was presented at the last meeting. He explained the Asset Allocation Study has been reviewed at the past three Investment Committee (IC) meetings and as a result, the ASRS and NEPC developed a final recommended strategic asset allocation policy (SAAP). Mr. Gary Dokes, Chief Investment Officer, introduced Mr. Dave Underwood, Assistant Chief Investment Officer, and Mr. Tim McCusker, Partner, NEPC.

Mr. Dokes reviewed the SAAP decision making methodology and highlighted the following proposed changes from the ASRS' existing asset allocation policy, approved by the IC in the recommended SAAP on April 30, 2012:

- Reclassified investments into three broad asset class categories
  - Better alignment of the economic drivers for underlying asset classes
- Reduced Allocation to Public U.S. Equities and U.S. Core Fixed Income
  - Improve diversification and allow more flexibility for tactical credit opportunities
- Increased Allocation to Public Non-U.S. Equities, Emerging Markets Equity/Debt, Private Debt, Real Estate, High Yield and Commodities
  - Improve diversification and maintain a more comprehensive set of asset class opportunities

Mr. Dokes said Windham Capital Management performed analysis for the SAAP. Mr. Lucas Turton, Managing Partner and Chief Investment Strategist, Windham Capital Management, explained his firm helps institutions understand and analyze risk. Mr. Chris Harris noted the SAAP was developed over a series of meetings in a very collaborative process between staff, NEPC and the IC. Mr. Tom Connelly thanked the IC for their significant efforts.

### ASRS Strategic Asset Allocation Policy Schematic (recommended)

(Exhibit A)

Asset Class	Policy	Range	Benchmark	Passive %
Large Cap	23%		S&P 500	
Mid Cap	5%		S&P 400	
Small Cap	<u>5%</u>		S&P 600	
US Equity	33%	(26 - 38%)		Min 50%
Developed Large Cap	14%		MSCI EAFE	
Developed Small Cap	3%		MSCI EAFE Small Cap	
Emerging	<u>6%</u>		MSCI EM	
Non-US Equity	23%	(16 - 28%)		Min 30%
Private Equity	7%	(5 - 9%)	Russell 2000	
Opportunistic Equity	<u>0%</u>	(0 - 3%)	Investment Specific	
<b>Total Equity</b>	<b>63%</b>	<b>(53 - 70%)</b>		
Core	13%		Barclays Aggregate	
High Yield	<u>5%</u>		Barclays HY	
US Fixed Income	18%	(8 - 28%)		Min 50%
Emerging Market Debt	4%		Investment Specific	
Opportunistic Debt	0%	(0 - 10%)	Investment Specific	
Private Debt	<u>3%</u>		Investment Specific	
<b>Total Fixed Income</b>	<b>25%</b>	<b>(15 - 35%)</b>		
Commodities	4%	(1 - 7%)	DJ UBS Total Return	
Real Estate	8%	(6 - 10%)	NCREIF ODCE	
Infrastructure	0%	(0 - 3%)	Investment Specific	
Farmland and Timber	0%	(0 - 3%)	Investment Specific	
Opportunistic Inflation Linked	<u>0%</u>	(0 - 3%)	Investment Specific	

<b>Total Inflation Linked Assets</b>	<b>12%</b>	<b>(8 - 16%)</b>
<b>TOTAL</b>	<b>100%</b>	
Global Tactical Asset Allocation (GTAA)	10%	(5 - 15%) Total Fund Benchmark

Note: Aggregate Opportunistic asset classes not to exceed 10%

Questions and discussion occurred, followed by a motion.

**Motion:** Mr. Tom Connelly moved to approve the ASRS Asset Allocation Policy Schematic as denoted in Exhibit A. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

## **6. Presentation and Discussion Regarding Trustee Fiduciary Education**

Ms. Beljan addressed the Board regarding fiduciary responsibilities with respect to Trustee education and knowledge. Ms. Beljan provided a presentation to Trustees regarding fiduciary responsibility as a Trustee and fielded several questions from Trustees.

## **7. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections of the Chair and Vice-chair**

Mr. Manos addressed the Board regarding Board elections. Pursuant to the ASRS Board Governance Policy Handbook, the ASRS Board is to elect a Board Chair and Vice-chair for Fiscal Year 2012/2013. The new Chair and Vice-chair positions will become effective July 1, 2012, and will continue through June 30, 2013.

**Motion:** Mr. Tom Connelly moved to elect Mr. Tom Manos as Chair of the ASRS Board of Trustees. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

**Motion:** Mr. Kevin McCarthy moved to elect Mr. Mike Smarik as Vice-chair of the ASRS Board of Trustees. Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

## **8. Presentation, Discussion and Appropriate Action Regarding Temporarily Reducing ASRS Board Committee Size**

Mr. Matson addressed the Board regarding temporarily reducing ASRS Board Committee size. Mr. Matson explained the ASRS Board has three Committees, each composed of a minimum of four members of the ASRS Board, appointed by the Board Chair.

Mr. Matson noted because the Board only currently has eight Trustees and will shortly have seven, staff recommends the Board temporarily reduce ASRS Board Committee size to three members of the ASRS Board instead of four, so Board Committee business can be efficiently conducted.

**Motion:** Mr. Chris Harris moved to change the size of Board Committees from four members of

the Board to three members of the Board until otherwise modified by the Board. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

**9. Presentation, Discussion and Appropriate Action Regarding ASRS Board Representation on the SB 1609 Defined Contribution and Retirement Study Committee**

Mr. Matson addressed the Board regarding ASRS Board Representation on the SB 1609 Defined Contribution (DC) and Retirement Study Committee. Mr. Matson explained in 2011 the ASRS Board appointed Mr. David Byers the ASRS Trustee representative on the DC Study Committee. Since Mr. Byers is no longer on ASRS Board, another ASRS Board Trustee must be chosen in his place.

**Motion:** Mr. Tom Connelly moved to appoint the Chair of the ASRS Board, or a proxy from the Board at the discretion of the Board Chair, to serve on the SB 1609 Defined Contribution and Retirement Study Committee. Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

**10. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson presented the Director's Report. He highlighted the State Street Risk Report noting it reflects different perspectives of risk, how risk changes over time, the importance of investment decisions, and change in market characteristics.

Mr. Matson noted the Employer delinquencies were presented in the Board materials as \$136,394 and the updated amount was now approximately \$100,000.

**11. Presentation and Discussion with Respect to Informational Updates Regarding the Upcoming Operations Committee Meeting on June 28, 2012**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, provided an update regarding the upcoming June 28, 2012 Operations Committee (OC) meeting, noting the following OC topics to be discussed:

- a. Budget Request for FY 2014/2015
- b. External Security Audit Update
- c. Health Insurance Contract Renewal
- d. Internal/Employer Audits

**12. Presentation and Discussion with Respect to Informational Updates Regarding the Upcoming Investment Committee Meeting on August 27, 2012**

Mr. Tom Connelly, Chair, Investment Committee (IC), requested Mr. Dokes provide an update on the upcoming August 27, 2012 IC meeting. Mr. Dokes noted the agenda was still being formulated and the meeting date could change depending on the membership of the IC.

The next Investment Committee meeting will take place August 27, 2012.

### **13. New Agenda Items**

No requests were made. Mr. Manos recognized outgoing Trustee, Mr. Chris Harris and thanked him for his service, noting one of the most difficult tasks is overseeing investments. He said Mr. Harris and Mr. Connelly have done a fine job and the non-IC Trustees have relied on them. Mr. Manos thanked Mr. Harris for his patience and education of new Board members. Mr. Connelly also commended Mr. Harris as a professional colleague and friend and an example of how a Trustee should conduct himself. Mr. Manos said Mr. Harris has been collegial, non-political, unbiased, and brought a sophisticated tool-set of industry experience to the Board. He noted it was a pleasure and privilege to serve on the Board with Mr. Harris.

Mr. Matson commended Mr. Harris for his knowledge of private markets, noting it is difficult to obtain an understanding of the intricacies of that marketplace. He said Mr. Harris forwarded very valuable research to the ASRS and allocated significant time on ASRS investments.

Mr. Matson presented Mr. Harris with a PRIDE award on behalf of the agency. Mr. Harris thanked staff and the Board, saying he appreciated the experience and opportunity.

### **14. Call to the Public**

No members of the public requested to speak.

**15. The next ASRS Board meeting is scheduled for Friday, August 17, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

### **16. Adjournment of the ASRS Board**

Mr. Manos adjourned the Board meeting at 11:19 A.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Maddox  
Board Secretary

Date

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Paul Matson  
Director

Date